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UNCLAS SECTION 01 OF 03 BRUSSELS 001763

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NSC FOR JOHN HERMANN, TED POSNER AND KRISTINA KVIEN
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SUBJECT: MCCREEVY ON G-20 AND EU RESPONSE TO THE CRISIS

REF: (A) BRUSSELS 01738; 01744 and 01757

[1](#)1. (SBU) Summary. EU Internal Market Commissioner
McCreedy told Ambassador Silverberg November 20 that:

- the G-20 Leaders Summit accomplished as much could be expected given the U.S. Presidential transition;
- it was still unclear how the EU will implement the G-20 action plan;
- the Commission is working on an EU stimulus package;
- the EU will likely provide financial support to the European auto industry; and
- he will attend the next TEC in Washington.

McCreedy also provided a brief update on the status of recent Commission financial services proposals, including on insurance company capital requirements, credit rating agencies, deposit guarantees, hedge funds and private equity, and credit derivatives. End Summary

G-20: HOW THE EU WILL FOLLOW UP IS UNCLEAR

[1](#)2. (SBU) Ambassador Silverberg met with EU Commissioner for Internal Market and Services Charlie McCreedy on November 20. McCreedy noted that the G-20 Leaders Summit accomplished as much as could be expected given that President Bush's term will soon end and President-elect Obama made it clear that he would not be bound by the results of the summit. In any case, the November 15 Summit was always planned as the first in a series of summits, not as a singular event. The next meeting is planned for April 30. McCreedy assumes it will be held in London, given that the United Kingdom will be the Chair of the G-20 at that point, and that its purpose will largely be to review progress on the steps called for by the November 15 Summit.

[1](#)3. (SBU) The Leaders Summit called for a large list of steps to be accomplished by March 31. It is unclear who will do what within Europe. The Finance Ministers are quite busy dealing with their own economic issues. The European Commission does not have a Ministry of Finance as such and is not a member of the Financial Stability Forum. However, many of the steps the G-20 called for require action on the part of the European Commission. It is currently unclear how this will be

resolved.

SARKOZYQS JANUARY CONFERENCE

14. (SBU) McCreevy noted that the conference on financial reforms recently announced by President Sarkozy for January 7-8 is a bit odd. While the attendance of several high-profile economists gives it an academic flavor, Heads of State will also reportedly attend. It is unclear how well such a mix will function. In any case, it is poor timing as, with the Obama Administration not yet in office, it is unlikely to accomplish much.

EU STIMULUS PACKAGE?

15. (SBU) McCreevy noted recent press reports that the EU will launch a EUR 114B economic stimulus plan of an amount roughly equal to 1 percent of EU GDP. (Note: Other reports quote German officials as stating that the package could be as much EUR 130B.) McCreevy is, however, unsure how the EUR 114B figure was determined. The European Commission does plan to announce a stimulus initiative next week. The exact nature of the initiative is currently unclear or perhaps an outline of a stimulus package with principles which Leaders could endorse at their European Council meeting in mid-December. Any EU stimulus plan is highly unlikely to include U.S.-style tax rebates. While there may be an agreement to reduce VAT by one percentage point, it is

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unlikely that it would actually be implemented by most member states or such a commitment is not worth the paper it is written on, McCreevy commented.

16. (SBU) McCreevy noted, however, that it is difficult for the European Commission to actively promote a fiscal stimulus as it is not a government and does not have significant discretionary expenditure. The size of the only significant Commission expenditure program on agriculture is fixed. (Note: The Commission's budget is limited to 1.03% of GDP and must be balanced.) Financial and economic policy rests with the member states. Thus, any EU Recovery Plan will not be binding on member states.

EU SUPPORT FOR AUTO INDUSTRY LIKELY

17. (SBU) McCreevy inquired about the prospects for further government assistance for the U.S. auto industry. He emphasized that the auto industry has a large presence in Europe or counting for 14 percent of employment in Germany, for example. While noting that any government assistance to the European auto industry would fall under EU state aid rules, he felt that it was likely there would indeed be a package of assistance for the auto industry or and perhaps industry more generally. While this aid will face difficulties under EU state aid rules, if there is not a broad European support package, individual member states will act anyway.

FINANCIAL SERVICES REFORMS

18. (SBU) McCreevy reviewed the status of several of the recent proposals by the European Commission on financial services:

-Solvency II: Some supervisory aspects of the Solvency II proposal to reform insurance regulation are proving surprisingly difficult. COREPOR decided with a

qualified majority to abandon the group support provision in the proposal. [Note: Group support is the proposal where by insurance companies would no longer be required to maintain separate capital in subsidiaries in individual member states. Insurance companies would be allowed to maintain an overall level of capital which would be determined by the home country regulator.] The European Parliament has already approved the version containing group support and the European Commission is resolved to maintain it. The next few weeks will see difficult negotiations to resolve this issue.

-Credit Rating Agencies: The European Commission's recent proposal to regulate Credit Rating Agencies will require a fair wind to make it out of the current European Parliament.

-Private Equity / Hedge Funds: The European Commission will, as it is required to do, respond to European Parliament reports calling for increased regulation of private equity and hedge funds. It plans to respond next month. McCreevy noted that regulation of hedge funds and private equity funds are being linked, but should not be.

-Credit Derivatives: The European Commission recently held a meeting with industry to discuss efforts to set up a clearing / settlement facility for credit derivatives. He expects the Commission to publish a proposal on this issue by the end of the year.

-Deposit Guarantees: Although the EU Directive on deposit guarantees has not yet been revised, most member states have already gone ahead and raised their limits on deposit guarantees to EUR 100,000, as called for last month by EU finance ministers. There is substantial disagreement, however, over the Commission's proposal to require deposit payouts within three days in the event of intervention. Many member states argue that three days is unfeasible. McCreevy believes that a compromise of 5-6 days will eventually

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be reached.

19. (SBU) Regarding the bank support schemes introduced by most EU member states, McCreevy noted that, although the Commission had given rapid initial approval under state aid rules, this approval is only for an initial period of six months. Under state aid rules, the Commission will review plans of member states after six months and expects to see realistic long-term restructuring plans in order to give continued approval.

TEC: MCCREEVY PROMISES TO ATTEND

10. (SBU) McCreevy promised Verheugen that he would attend the TEC. So, he will be there whenever it is scheduled.

SILVERBERG